



Office of the City Auditor

2022 Audit Plan

February 10, 2022

Colorado Springs Audit Committee

Subject: 2022 Audit Plan for Approval

Audit Committee:

I am seeking your approval of the 2022 Audit Plan. The attached audit plan is based on a risk assessment as required by professional auditing standards. As part of this risk assessment process, I considered input from City Council, City Administration, Colorado Springs Utilities (CSU) Administration, Colorado Springs Airport Administration, and others. This document will serve as the primary work plan for the Office of the City Auditor. The proposed plan utilizes current authorized staffing level of 13 Auditors and an Administrative Assistant.

Once the Plan has been reviewed and approved by the Audit Committee, a copy will be posted on the Office of the City Auditor webpage.

Respectfully,

Jacqueline Rowland
City Auditor



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2022 AUDIT PLAN

The 2022 Audit Plan include the audit projects that are required or have been risk assessed to be the best use of resources of the Office of the City Auditor in 2022. The audit projects are listed in two categories:

- **Standard Audits**
These audits are required by City Code, a city ordinance, a Utilities Board Instruction, or some other requirement. Standard audits also include financial system audits that the City Auditor uses to meet his duty.
- **Audits Prioritized by Annual Risk Assessment**
These audits are identified by the annual risk assessment process. This process includes a risk assessment model with numeric scoring for risk areas. City Auditor utilizes, among other categories, organization's strategic goals, leadership input, and annual budgets as risk criteria for determining proposed audits.

STANDARD AUDITS

❖ **City of Colorado Springs External Auditor Oversight**

In accordance with City Charter, 3-160 Independent Audit: "The Council shall provide for an independent annual audit of all City accounts and may provide for more frequent audits as it deems necessary. Such audits shall be made by a certified public accountant or firm of such accountants who have no direct personal interest in the fiscal affairs of the City government or any of its officers." The City Auditor administers the external auditor contract for the City. The City Auditor monitors issues as they arise between the external auditor and the City, Colorado Springs Utilities, or its audited entities. The external auditor will report to the City Auditor and the Audit Committee, who will then communicate with City Council, as needed.

❖ **City of Colorado Springs External Financial Audit Staffing/Assistance**

❖ **Colorado Springs Utilities External Financial Audit Staffing/Assistance**

The Office of the City Auditor will provide 250 hours of audit assistance to both of the external auditors of the City and Colorado Springs Utilities annual financial statement audits. City Auditor staff performs this work under the direction of the external auditor.

❖ **Colorado Springs Utilities Board Instructions 2 and 8 Monitoring**

❖ **Colorado Springs Utilities Board Instruction 4 Monitoring**

In accordance with City Code, 1.2.206 Cooperation Among Appointive Officers of the City: The Utilities Board requested the City Auditor perform an annual compliance review of Colorado Springs Utilities Board Instructions 2, 4, and 8. The purpose of these audits is to verify the report of Colorado Springs



Utilities management to Utilities Board on Instruction 4 related to Enterprise Risk Management, along with Instruction 2 related to Financial Condition and Activities. Instruction 8 relates to Asset Protection.

❖ **City of Colorado Springs; Financial System Reviews**

❖ **Colorado Springs Utilities; Financial System Reviews**

The purpose of financial system audits is to evaluate internal controls used to ensure the reliability of financial information and assets. We also consider operational best practices, efficiency, and effectiveness in these audits. The operations included as financial systems are cash receipts, billing, cash disbursements, payroll, debt, investments, and procurement. The Office of the City Auditor will perform a risk assessment of financial systems at the City and Colorado Springs Utilities early each year to determine which systems will be audited for the year. We will consider and coordinate the internal control work done by the external auditors in our risk assessment. For example, system or staffing changes as well as complexity of operations or decentralized activities would indicate higher risk profiles for audit services.

In accordance with City Code, 1.2.704 Perform Postaudit and 1.2.706 Examine Books, Records: "The City Auditor shall perform a current postaudit of the financial operation of the City government and its enterprises. The City Auditor shall submit reports to Council of periodic audits of each enterprise, department, division, office, agency or account." "The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, division, agency, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council."

❖ **City of Colorado Springs, Colorado Springs Utilities, and all City Enterprises; Follow Up**

In accordance with the Institute of Internal Audit Practice Advisory 2500.A1: "The chief audit executive must establish a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action." The purpose of this project is to follow up on status of all audit recommendations and related management responses issued in 2021 and unresolved issues from prior years.

❖ **Colorado Springs Utilities Rate Filing Reviews**

❖ **Colorado Springs Utilities ECA/GCA Rate Verification**

In accordance with City Code, 12.1.108 Regulations of Electric, Streetlight, Natural Gas, Water and Wastewater Rates, Charges and Regulations: "When Utilities proposes to change base rates, and the proposed change will result in the determination of a new revenue requirement supported by a cost of service study, Utilities will provide a draft of the proposal and cost of service study to the City Auditor and the City Attorney at least thirty (30) days prior to filing the proposed resolution with City Council. When changes to base rates are proposed, but do not involve a cost of service study, a draft of the proposal will be provided to the City Auditor and the City Attorney seven (7) days prior to the filing of a proposed resolution. Any request for additional information by the City Auditor and any response by Utilities, will be in writing."



Colorado Springs Utilities periodically files rate adjustments as well as Electric Cost Adjustments or Gas Cost Adjustments (ECA/GCA) with the City Council. These rates become the basis for the service billings.

The purpose of these audits is to evaluate whether Colorado Springs Utilities prepares rate filings in a consistent and accurate manner. We verify management is using sound methodology that is supported by verifiable data and logical assumptions. We also verify that the rates support management objectives.

❖ **Colorado Springs Utilities Partner Billing for the Southern Delivery System**

The purpose of this audit will be to verify the accuracy of cost allocation related to the Southern Delivery System (SDS). Per the Intergovernmental Agreement among the City of Colorado Springs, City of Fountain, Security Water District, and Pueblo West Metropolitan District for Operations, Maintenance, Replacement and Expansion of the Southern Delivery System; “A review of the accuracy of the Participants’ cost allocation shall be included in the City of Colorado Springs City Auditor’s audit of SDS operations following their normal audit schedule and procedures.”

❖ **City of Colorado Springs Purchasing Card Monitoring**

The purpose of this audit will be to review compliance with City Procurement Card (p-card) policies and procedures on an ongoing basis. Effective April 2016, the Office of the City Auditor (OCA) assumed responsibility for ongoing compliance reviews of p-card transactions.

❖ **City of Colorado Springs Ballot Measure 2C Compliance**

The purpose of this audit will be to ensure the City complies with the specifications related to Ballot Issue 2C. The Ballot measure stated, “The expenditure of these revenues for road repairs and improvements is to be in addition to, and not in lieu of, amounts currently being expended by the City for road maintenance and improvements. During the period the temporary sales and use tax increase is in effect, the City will maintain spending on repair and maintenance of roads and streets at the average of the City's annual spending amount for such repair and maintenance during fiscal years 2012, 2013 and 2014. The City Auditor will perform an audit to calculate such average spending amount. Subject to City Charter limitations on preparation, submission and approval of the annual budget and annual appropriation ordinance, during such period, the City will annually expend at least the amount so computed on repair and maintenance of roads and streets.” We will verify that General Fund spending maintained the pre-2C level as specified on the ballot.

❖ **TOPS—Trails, Open Space and Parks Audit**

The purpose of this audit is to review the City’s Trails, Open Space and Parks activity as required by City Code 4.6.203, which states, “The City shall adopt regulations requiring an independent biennial audit of the expenditures of all of the net proceeds from the sales tax and other revenue. The City Council, with City and advisory committee participation, shall regularly review the audits with a view to establishing expenditure priorities. (Ord. 97-96; Ord. 01-42; Ord. 03-69; Ord. 15-92)”.



AUDITS PRIORITIZED BY ANNUAL RISK ASSESSMENT, LISTED BY ENTITY

City of Colorado Springs

❖ Colorado Springs 2019 Ballot Issue 2B, Retain Revenue for Parks and Recreation

The purpose of this audit will be to monitor compliance with 2019 Ballot Issue 2B voter approved spending on specific parks, sports, cultural facilities, and trail improvements located within the City of Colorado Springs. Audit Report 21-09 reviewed Ballot Issue 2B spending through December 31, 2020. The 2022 Audit will review spending compliance for period beginning in January 2020.

❖ Colorado Springs Police Department Grant Management

The purpose of this audit will be to evaluate the grant compliance around sub-recipient requirements. The audit will consider internal controls as well as effectiveness, efficiency, and economy of grant compliance operations.

❖ Colorado Springs Police Department Policy Compliance

Working with Colorado Springs Police Department leadership, we will identify operational policies for review. The purpose of this audit will be to evaluate policy compliance and documentation of compliance in police operations. Auditor will not perform the review as subject matter experts. The review will be comparing a policy requirement to supporting evidence for compliance.

❖ Colorado Springs Fire Department Overtime and Staffing

The purpose of this audit will be to evaluate the cost of overtime considering staffing policies for efficiency, effectiveness, and economy. The audit will consider the importance of public safety and Colorado Springs Fire Department's mission throughout this review.

❖ Department Performance Review

The audit will include review of a specific City department to provide an assessment of the performance and management of the operations. The review will consider department goals accomplishment, efficiency, effectiveness and economy of resources, and service delivery among other criteria.

Given the breadth and diversity of City operations, we plan to complete one department performance review a year. City Code 1.2.705 calls the City Auditor to determine whether City programs are achieving desired objectives. This section of Code also requires the City Auditor to review administrative control systems of all departments and divisions for adequacy and effectiveness. City Code 1.2.709 calls the City Auditor to report to Council on fiscal management.

❖ Information Technology Review

In 2021, an information technology program review was conducted against an established framework such as National Institute of Standards and Technology (NIST) 800-53. Assessment results are being measured against Department of Information Technology priorities and improvement plans. Using the



results of the assessment and City IT strategic goals, 2022 technology audit projects are being developed to address prioritized risk areas. The risk assessment results and planned projects will be shared with the Audit Committee in early 2022.

Colorado Springs Airport

❖ **Airport Contract Administration**

This audit began fourth quarter 2021 and will continue in early 2022. The purpose of the audit is to review Airport contract administration compliance, efficiency, and effectiveness of operations.

Colorado Springs Utilities

❖ **Information Technology Program Risk Assessment**

The purpose of this audit will be to review the information technology program against an established framework such as National Institute of Standards and Technology (NIST) 800-53. Assessment results will be measured against Department of Information Technology priorities and improvement plans. Additional audits will be conducted and planned based on the assessment results. The risk assessment results and planned project will be shared with the Audit Committee in third quarter 2022 or sooner as work is completed.

❖ **Billing System Implementation; Multi-year Monitoring Review**

The purpose of this project will be to monitor the replacement of the Utilities' billing system. The audit will include monitoring of data governance, security, quality assurance, and internal controls.

❖ **Sustainable Energy Plan (SEP); Multi-year Monitoring Review**

SEP is a multi-year program that includes planning, engineering, procurement, and delivery of the implementation. Projects within the program include the temporary natural gas generators, electric infrastructure, advanced technologies campus, portfolio management, demand side management (DSM) distributed energy strategies, and distributed generation resources.

The purpose of this audit will be to monitor this multi-year initiative to include project management and internal controls. Consistent with our audit standards and policies, we will include risk assessment activities to optimize and align audit resources to the operational activities.

❖ **Automated Metering Infrastructure (AMI); Multi-year Monitoring Review**

The Advanced Metering Infrastructure project involves upgrading meters with new electric meters and installing new hardware on natural gas and water meters across the entire customer base. This project updates technology and enables two-way communication.

The purpose of this audit will be to monitor the implementation of the component projects under the AMI program for project management and technology governance.

❖ **Operational Fiber Network; Multi-year Monitoring Review**



Starting in 2022 Colorado Springs Utilities will begin construction of a next-generation fiber network to be completed in 2028. This city-wide modern network is projected to enhance utility operations, allow better service to customers, and meet community needs by enabling multi-gigabit internet connectivity to every home and business in the City. Utilities has entered into a lease agreement with a national fiber network provider and others for a non-exclusive network.

The purpose of this audit will be to monitor the multi-year execution of building the fiber optic network. Our review will include project management and technology governance using annual risk assessments.

❖ **Utilities Green-E Certification**

The purpose of this project will be to validate green energy sales are from a renewable energy source. Utilities request our office perform this work to avoid fees by a third-party vendor.

❖ **Department Performance Review**

The audit will include review of a specific area of the Colorado Springs Utilities to provide an assessment of the performance and management of the operations. The review will consider department goals accomplishment, efficiency, effectiveness and economy of resources, and service delivery among other criteria.

Given the breadth and diversity of operations, we plan to complete one department performance review a year. City Code 1.2.705 calls the City Auditor to determine whether programs are achieving desired objectives. This section of Code also requires the City Auditor to review administrative control systems of all departments and divisions for adequacy and effectiveness. City Code 1.2.709 calls the City Auditor to report to Council on fiscal management.

Office of City Auditor Administration

❖ **Audit Software Implementation**

This project will be to upgrade internal audit software. The new software will provide improved functionality, reporting, and collaboration with stakeholders.

❖ **Fraud Hotline Response/Management**

The objective of the hotline is to be a resource for employees of the City, City entities, Colorado Springs Utilities, citizens, and contractors to report fraud, waste and abuse related to City resources.



BACKGROUND

The remainder of this report includes background information on the Office of the City Auditor authority, mission, types of audits, and audit universe.

AUTHORITY

The City Auditor is an appointee of City Council. The City Auditor has the authority to establish policies and procedures to facilitate the consistent operation of the office. The Office of the City Auditor will also comply with the policies and procedures prescribed for the City.

The City Auditor derives authority from the Colorado Springs City Code. The primary authority given is in Section 1.2.706, which states,

“The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, division, agency, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.” (Ord. 11-18)

MISSION STATEMENT

To provide the City Council an independent, objective, and comprehensive auditing program for operations of the City of Colorado Springs (to include Colorado Springs Utilities and other enterprises of the City); evaluate the adequacy of financial controls, records, and operations, and the effectiveness and efficiency of organizational operations; and provide City Council, management, and employees objective analyses, appraisals, and recommendations for improving systems and activities.

TYPES OF AUDITS

The Office of the City Auditor performs a variety of audits. While each audit involves unique planning, techniques, and execution, we can divide most of the audits into the following types.



FINANCIAL SYSTEM AUDITS

The purpose of the financial system audits is to evaluate the internal controls used to ensure the reliability of financial information. The major systems audited on a risk assessed basis are cash receipts, billing, cash disbursements, payroll, debt, investments, and procurement.

EXTERNAL FINANCIAL AUDITS

Our office provides audit assistance to the external auditor for the City of Colorado Springs, and Colorado Springs Utilities annual financial audits. This work is defined, supervised, and reviewed by the external audit firms. The Office of the City Auditor provides assistance per the external audit contracts, approximately 250 hours each, to assist in reducing the audit fee.

The City Charter states, "3-160 Independent Audit. The Council shall provide for an independent annual audit of all City accounts and may provide for more frequent audits as it deems necessary. Such audits shall be made by a certified public accountant or firm of such accountants who have no direct personal interest in the fiscal affairs of the City government or any of its officers." Acting as City Council's agent, the City Auditor provides oversight of the contract with the independent external audit firm along with providing staff assistance to the firm.

PERFORMANCE AUDITS

Performance audits are objective and systematic examinations of a specific area of an organization to provide an assessment of the performance and management of the operation. It usually involves a review of the

- compliance with internal and external rules and regulations,
- accomplishments of goals and objectives
- reliability of data,
- economy, efficiency, and effectiveness of service delivery, and
- safeguarding of assets.

City Code states the duties of the City Auditor include, "1.2.705 Determine Effectiveness and Efficiency of Programs: The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives...."

CONTRACT AUDITS

The primary concern or purpose of a contract compliance audit is to determine whether the parties of the contract are abiding by the terms of the contract. Examples of contracts may include those entered into with Transit or the Humane Society. These contracts often address issues of performance and compliance with City requirements. Again, the criteria for the audit would be the specifications of the contract.

City Codes states that the duties of the City Auditor include, "1.2.709 Make Periodic Reports to Council:



The City Auditor shall make periodic reports to Council which shall include the following: ...

B. Information of proposals deemed expedient in support of the City's credit, and recommendations for lessening expenditures, for promoting frugality and economy in City affairs and for an improved level of fiscal management..."

RATE REVIEWS

The Office of the City Auditor is required to review all utility rates or charges. The City Auditor reviews the rates to determine whether the rate model has been accurately and consistently applied in the calculation of appropriate rates. City Council votes on whether to implement the rate or adjustment.

City Code requires that rate filings be submitted to the City Auditor. City Code states, "12.1.108 REGULATION OF ELECTRIC, STREETLIGHT, NATURAL GAS, WATER AND WASTEWATER RATES, CHARGES, AND REGULATIONS: C. Adopted By Resolution; Hearing: Base rates or regulations or any change shall be adopted by resolution, which shall adopt by reference the appropriate tariff sheet or sheets to be established or revised. 1. Preliminary Information For The City Auditor And City Attorney: When Utilities proposes to change base rates, and the proposed change will result in the determination of a new revenue requirement supported by a cost of service study, Utilities will provide a draft of the proposal and cost of service study to the City Auditor and the City Attorney at least thirty (30) days prior to filing the proposed resolution with City Council. When changes to base rates are proposed, but do not involve a cost of service study, a draft of the proposal will be provided to the City Auditor and the City Attorney seven (7) days prior to the filing of a proposed resolution. Any request for additional information by the City Auditor and any response by Utilities, will be in writing."

CONSTRUCTION AUDITS

The City and its various enterprise operations are involved in active multi-million dollar capital improvement projects. The City Auditor has established a Construction Audit review section under the Performance Audit group. This group provides a review of projects that are underway.

We have identified a list of risks associated with construction projects. Some of the tasks that will be performed include:

- reviewing payment requests to assure they are in agreement with contracted terms,
- scrutinizing change orders,
- monitoring project costs versus approved budgets, and
- providing independent observations to management regarding project status.

The Code authority for construction audits would be the same as several of the areas mentioned above to include Contract Audits, Performance Audits, and System Audits. In addition, City Code states, "1.2.703 Ensure Public Accountability: The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if



there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.”

INFORMATION SYSTEM AUDITS

The purpose of an Information System/IS (or Information Technology/IT) audit is to review and evaluate the availability, security, confidentiality, and integrity of the City’s (and its entities’) information technology infrastructure. The evaluation helps to ensure that the organization is adequately safeguarding assets, maintains data integrity, and is operating effectively and efficiently to achieve the organization’s goals. Types of IS/IT audits include:

- review of computerized systems and applications to verify that they are appropriate to the entity’s needs, are efficient, and are adequately controlled to ensure valid, reliable, timely and secure input, processing, and output at all levels of the system’s activity;
- review of information processing facilities to verify that the facility is controlled to ensure timely, accurate, and efficient processing of applications under normal and potentially disruptive conditions;
- review of systems development to verify that the system under development meets the objectives of the organization, includes adequate controls to safeguard information input, processing, and output as well as ensuring the system is developed in accordance with generally accepted standards for systems development; and
- review of management and enterprise architecture to verify that IT management has developed an organizational structure and procedures to ensure a controlled, efficient environment for information processing.

City Code states, “The City Auditor shall examine and inspect all books, records, files, papers, documents, and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision, and organization which receives funds from the City or under the direct or indirect control of the City Council.” The information systems audits are primarily concerned with computer records and ensuring the reliability of data.

MONITORING PROGRAMS

The Office of the City Auditor monitors various aspects of the City and the entities associated with City Council/Utilities Board. We accomplish this function by attending meetings and auditing specified projects. We also utilize technology to assist in the monitoring process. For instance, the City Auditor monitors the City’s purchasing card program to verify policy compliance.

City Code states, “1.2.703 Ensure Public Accountability: The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.” Monitoring activities allow the City Auditor to help ensure public accountability.



FOLLOW UP AUDITS

Audit report recommendations and management responses are monitored to ensure that management actions are completed as specified in their responses. These follow up audits are required by professional standards and supported by previously quoted sections of City Code that direct the City Auditor to ensure public accountability.

AUDIT UNIVERSE

The audit universe for the City Auditor is very broad. Per the City Code, the City Auditor shall examine and inspect all books, records, files, papers, documents, and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision, and organization which receives funds from the City or under the direct or indirect control of the City Council.

STANDARD AUDITS

These audits are required by City Code, a city ordinance, a Utilities Board instruction, or some other requirement. Standard audits also include system audits that the City Auditor uses to meet his duty. These audits are automatically added to the audit plan at the appropriate time.

RISK ASSESSMENT MODEL

The City Auditor uses a risk assessment model to identify projects for its annual audit plan. The model provides numeric scoring for risk areas and a cumulative score for the project as a whole. The higher values, representing higher risk projects are then reviewed and a balance is reached between staff resources and workload of the various entities.

The City Auditor also considers the strategic goals and objectives and risk concerns of audited entities for audit planning. City Council, Utilities Board, and executive management recommendations are considered in the risk assessment of potential projects for annual audit planning.

BALANCING AUDIT TIME BETWEEN ORGANIZATIONS

The City Auditor recommends audit services based on the annual risk assessment. This process resulted in following percentage of time for each of the entities:

- 42.0% City of Colorado Springs
- 54.0% Colorado Springs Utilities
- 4.0% Colorado Springs Airport

AUDIT FLEXIBILITY

The City Auditor sets aside approximately 10% of the scheduled staff time annually for projects that may arise during the year and require immediate attention. An example of such a project would be the



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investigation of reports alleging fraud, waste, or abuse via the Fraud Hotline. Similarly, City Council or management may request an audit or consulting engagement that needs immediate attention.

All the projects listed may not be completed in 2022. Any audit projects not completed in 2022 will be risk assessed for inclusion in future audit plans. The 2022 Audit Plan may be revised during the year based on various factors such as resource changes or a modified risk assessment.